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RHEBAAA/DEPT OF ENERGY WASHINGTON DC IMMEDIATE
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
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RUEKDIA/DIA WASHINGTON DC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 000751

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NEA FOR DAS GGRAY
DEPT OF ENERGY PASS TO A/S KKOLEVAR, MWILLIAMSON, AND
DASAHEGBERG
TREASURY PASS TO A/S CLOWERY
CIA PASS TO TCOYNE

E.O. 12958: DECL: 05/11/2018

TAGS: EPET ENERG SA
SUBJECT: SAUDIS DISMISS CALLS FOR OPEC MEETING, REITERATE
ONLY THEY HAVE SPARE CAPACITY

REF: RIYADH 732

Classified By: DCM Michael Gfoeller for reasons
1.4 (b) (c) and (d).

Summary

¶11. (C) With NYMEX crude reaching \$126-plus/barrel on May 9, the energy press speculated the production consensus in OPEC was beginning to crack. On May 10, Assistant Minister of Petroleum (MinPet) Prince Abdulaziz bin Salman bin Abdulaziz Al-Saud told us he believes that excepting Saudi Arabia, OPEC could muster only 200,000 bpd of spare capacity, and was in no position to respond. Given that, he dismissed calls for an OPEC meeting prior to September, asking why Saudi Arabia would seek OPEC's permission to increase production if it so chose. He added MinPet is not worried about OPEC quotas now. Nonetheless, Prince Abdulaziz maintains the market is well-supplied, and gave no indication of a change in production policy. Likewise, the ExxonMobil Saudi Arabia CEO (strictly protect) believes the Saudis are unlikely to change their current production policy, and will continue to hew to a well developed story line regarding the sufficiency of crude in the markets.

Crude Price Spike Sets Off Flurry of
Press Speculation on OPEC Consensus

¶12. (SBU) After a week of near all-time record crude prices, on May 8, Libyan OPEC Secretary General Abdullah al Badri felt compelled to issue a public statement, stating there was no shortage of oil in the market, but indicating OPEC would act if needed. May 9 comments in Bloomberg by Libya's senior oil official Shukri Ghanem that he favored an emergency OPEC meeting prior to the planned September 9 meeting, fueled press speculation that the production consensus in OPEC was beginning to crack. "I expect a meeting before September. I am not calling for one, but I would support one," noted Ghanem.

Spare Capacity: 200,000 BPD At Best in Rest of OPEC
Nobody has Contacted Us About an OPEC Meeting

13. (C) In a May 10 conversation, Prince Abdulaziz reacted to the OPEC press comments. He clarified his opinion on tight spare capacity, stating, "Conventional wisdom says that the rest of OPEC (excepting Saudi Arabia) has a million spare barrels of capacity, but I doubt it very much. I think they have 200,000 barrels at best." Prince Abdulaziz does not see the point in convening an emergency OPEC meeting: "If you're asking my personal view, it's not worth it, because there is no excess capacity except for ours. Why would we ask Chavez to agree to Saudi Arabia producing more oil? If we want to do it, we can do it without their approval." Underscoring the difficulty of moving the price in this capacity-constrained environment, an un-named OPEC source speaking to the press on May 9, indicated, "In my view, any increase would have to be more than 500,000 barrels per day to have an impact on the price."

14. (C) The same un-named source also hinted at scheduling an OPEC meeting prior to the planned September 9 meeting. Prince Abdulaziz noted that Saudi Arabia had not been notified or consulted about a possible meeting. "We haven't been told in any way about a meeting, there have been no formal consultations on a meeting."

Prince Abdulaziz: NOPEC Remains a Threat

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15. (C) On a separate issue, Prince Abdulaziz asked us to clarify that he has never underestimated the threat of NOPEC legislation, but he considers the anti-OPEC lawsuits a more imminent threat to Saudi Arabia's interests in terms of timeline. Prince Abdulaziz re-iterated he comprehends the very real threat legislation such a NOPEC could represent to the long-term U.S.-Saudi relationship.

ExxonMobil: Saudis Unlikely to Change Story Now
"Prolonged Period of Continued Volatility"

16. (C) ExxonMobil Saudi Arabia CEO Desmond Carr (strictly protect) told Energy Attaché on May 10 that he expects the Saudis to continue to hew to their well developed story line regarding the sufficiency of crude in the markets. MinPet has typically pointed to speculation in the financial markets to account for crude price run-ups. Carr stated, "All of the signals we have received in Riyadh in recent days suggest the Saudis are unlikely to change the story line they have rehearsed so many times in public. I certainly do not expect them to change their well-established version of current market pressures, and medium term outlook. After all, it is now an established fact of life that the Kingdom needs \$60/barrel-plus to pay their rapidly escalating current bills, and I detect that some of the them live in fear that any substantive change of current production/marketing policy could trigger a free-fall that might crash through their threshold of pain. All in all, the evolving business environment continues to indicate a prolonged period of continued volatility bedeviled by rising costs, with downstream and chemicals suffering from deteriorating margins."

Comment

17. (C) With the President due in Riyadh this week, we face a challenging situation. Comments from MinPet, industry, and OPEC point to the Saudis as the only members of OPEC with

sufficient spare capacity - perhaps - to move the market now.

However, per reftel, MinPet remains convinced that U.S.

demand will fall in coming months due to the economic

recession, layered on a normal seasonal drop in demand.

Convincing Saudi leadership that demand destruction in the

U.S. is not yet a fait accompli, but a development over which

they have influence, may be the one path to sway production

and pricing behavior. While MinPet has made up its mind,

higher-level Saudi leadership may yet be convinced that an

additional half a million barrels or more could impact market

psychology sufficiently to lower prices and forestall

significant U.S. demand destruction. Such destruction would

hurt not just the U.S., but Saudi Arabia's growing markets in

Asia.

GFOELLER